

Virginia
Drinking Water State Revolving Fund Program

Report For
State Fiscal Year 2008
July 1, 2007 through June 30, 2008

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TABLE OF CONTENTS

I. INTRODUCTION	4
II. GOALS AND ACCOMPLISHMENTS	6
A. Progress Toward Long-Term Goals	6
B. Progress Toward Short-Term Goals	7
III. DWSRF SET-ASIDE AND LOAN ACTIVITIES	9
A. Sources of DWSRF Program Funds	9
B. Uses of DWSRF Program Funds	10
1. Allocation of DWSRF Program Funds	10
2. Set-Aside Activity Status	11
Administration and Technical Assistance	11
Small Systems Technical Assistance	11
State Program Management	
Source Water Protection Program Administration	12
Public Water Supply Supervision (PWSS) Program	12
Capacity Development	13
Operator Certification	13
Local Assistance and Other State Programs	13
Source Water Delineation and Assessment	14
Capacity Development	14
Land Acquisition for Source Water Protection	17
Wellhead Protection	17
Set-Aside Utilization Charts	19
3. Construction Project Loan Assistance Status	23
Binding Commitments	26
Disbursements for Projects	26
Project Bypass	26
Small Systems That Will Benefit	26
Disadvantaged Community Systems	27
4. Coalfield Water Development Fund	27
IV. FINANCIAL SUMMARY	28
A. Status of Loans	28
B. Loan Disbursements/Cash Draw Proportionality	28
C. Set-Aside Disbursements	28
D. Annual Repayment/Aging of Accounts	28
E. Loan Portfolio Analysis	28

V. COMPLIANCE WITH AGREEMENTS	28
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IV. APPENDICES

Appendix A: Binding Commitments Report.....	31
Appendix B: Federal and State Construction Project Expenditures.....	34
Appendix C: Financial Status Reports – FSR 269 - Fiscal Year 2007.....	38
Appendix D: MECC Final Report – Fiscal Year 2008	45
Appendix E: Summary of DEQ Wellhead Protection Program.....	55

I. INTRODUCTION

The time period of July 1, 2007 through June 30, 2008 (state fiscal year 2008) covered by this report indicates activities building on previous years' success. First loan offers were made in June 1998. This report illustrates the status of the Drinking Water State Revolving Fund (DWSRF) Program by describing the progress made toward long and short-term goals, the sources and uses of funds, financial status of the DWSRF Program, and compliance with federal requirements.

The highlight accomplishment is the fact that in just over 10 years the Office of Drinking Water (ODW) has been awarded eleven federal EPA capitalization grants bringing the total to \$151.9 million, and has received general fund support for the required 20% state matching dollars. ODW was awarded the 2007 capitalization grant in May 2008.

We made significant progress in achieving our objectives. The progress is indicated by ODW issuing its twelfth Intended Use Plan that earmarks funds for construction projects, which now total 200, and provides funding for many set-aside activities. Twelve (12) projects totaling \$6.1 million were closed during this reporting period. As of June 30, 2008, we have closed 165 projects for a total of **\$162,874,052**.

State Fiscal Year	# of Binding Commitments	Amount
1998	1	\$ 4,000,000
1999	3	\$ 8,000,000
2000	15	\$ 15,114,517
2001	20	\$ 24,410,390
2002	30	\$ 33,827,968
2003	19	\$ 22,218,265
2004	16	\$ 11,667,041
2005	17	\$ 10,654,508
2006	17	\$ 16,833,000
2007	15	\$ 9,955,237
2008	12	\$ 6,193,126
Total	165	\$ 162,874,052

ODW's numerous set aside activities provide opportunities for waterworks to enhance their endeavors to provide safe water. As of June 30, 2008, ODW has awarded 181 planning grants to enable small waterworks to better plan for needed projects and prepare them for the future. ODW contracts with various organizations to provide targeted waterworks with services such as source water protection. ODW scholarships for operator and management training professional development seminars and other training efforts provide knowledge at the local level to increase waterworks capability to operate waterworks over the long term. For a global view of most of our activities, refer to **Appendix A** for the Checklist of Program Activities.

ODW wants to highlight the "A. P. Carter Highway Line Extension" and the "Lilly Subdivision Sanitary District" construction projects that closed during the reporting period.

The Scott County Public Service Authority received \$365,822 in DWSRF funding for the A. P. Carter Highway Line Extension to install approximately 4,000 linear feet of 8-inch, approximately 14,765 linear feet of 6-inch, approximately 6,500 linear feet of 4-inch water lines and water meters. Existing homes in

the project area were served by springs and wells and were experiencing diminished capacities and contaminated water sources. Several water samples collected from the private water supplies were positive for both total and E coli coliform contamination. The project also received \$254,215 from the Virginia Water Supply Assistance Grant Fund, \$480,000 from the Virginia Department of Housing Community Development and Block Grant, and \$40,000 from the Coalfield Water Development Fund. The A. P. Carter Highway Line Extension project will benefit 48 residential connections by providing a safe and reliable source of drinking water.

The Lilly Subdivision Sanitary District, which is owned and operated by Rockingham County, received \$456,490 in DWSRF funding to install approximately 8,000 linear feet of 4-inch water line to hook the subdivision onto the City of Harrisonburg water system. This new water line enabled the sanitary district to replace a well source that had been determined to be groundwater under the direct influence of surface water. Sixty two existing residential customers benefited from this project and now have a more reliable water system with a municipal source that is not declared to be under the influence of surface water.

Many challenges face waterworks and we will strive to create opportunities to improve Virginia's drinking water and to achieve the full potential of the SDWA funding and authority and other funds made available to us. Additional funds are available through the Virginia Water Supply Assistance Grant Fund (WSAGF) which consists of all state dollars and became available July 1, 2000. This funding compliments and supplements the Safe Drinking Water Act (SDWA) funds. As of June 30, 2008, \$17.2 million in funds have been made available in the WSAGF.

ODW's overall goal is to ensure that Virginians are among the healthiest people in the nation. This Program's numerous activities support this by ensuring that waterworks will survive over the long term while providing safe, affordable drinking water.

Sincerely,

Steve Pellei, P.E.
Director
Division for Construction Assistance, Planning and Policy

II. GOALS AND ACCOMPLISHMENTS

We developed the goals discussed below for the 2008 Intended Use Plan (IUP). Our long-term goals provide a framework that guides our management decisions for the DWRSF Program. Our short-term goals support the implementation of the program's long-term goals. The overall goal of ODW in administering the capitalization grant is to provide a comprehensive and integrated technical and financial assistance program to waterworks owners through a balanced approach of using set-aside funding and construction loan funds to:

A. Progress Toward Long-Term Goals

1. *Help assure that Virginians will be the healthiest people in the nation, in regards to drinking water.*
2. *Protect the public health and welfare by planning and directing activities that assure adequate water quantity and quality are provided to users of waterworks.*
3. *Assist waterworks owners in complying with federal and state mandated drinking water regulations through both programmatic and construction assistance.*
6. *Assist waterworks owners in correcting health problems related to drinking water through both programmatic and construction assistance.*

Progress Toward Goals 1, 2, 3 and 6: We developed a Program that utilized the capitalization grant in two distinct categories; (i) non-project funds or set-asides and (ii) project funds to be utilized for construction at public drinking water systems (waterworks). Set-aside funds were used to enhance the ability of the state and owners of waterworks to ensure a waterworks' long-term capacity to produce safe drinking water and to protect construction loan investments. Specific set-asides are discussed later in this report. Construction funds for waterworks were targeted to address public health problems and to ensure compliance with the provisions of the SDWA.

In addition, the SDWA authorized Virginia to establish a special demonstration project to loan funds to a regional endowment to "...finance new drinking water facilities..." in Southwest Virginia. The Coalfield Water Development Fund, Inc. (CWDF) was established for this purpose and a total of \$10 million has been provided to the endowment.

4. *Assist and encourage waterworks owners to develop strategies to develop and maintain the capacity (adequate managerial, technical and financial capability and well-trained operators) to provide safe drinking water for the long term.*

Progress Toward Goal 4: Although we canceled the contract in June 2005, during the month of July 05 and August 05 two late payments were processed totaling \$8,161.11. We continued to provide hands-on assistance in developing Comprehensive Business Plans for waterworks focusing on SNC's, disadvantaged waterworks, new waterworks, waterworks serving less than 3,300 persons and those ranking high on the loan application list. A capacity development strategy was developed and is being fully implemented.

5. *Assist waterworks owners in the protection of their source waters by developing or assisting to develop source water protection programs.*

Progress Toward Goal 5: We have the responsibility to conduct assessments of all water sources which includes source water protection area delineations, inventories of certain contamination sources and determinations of susceptibility. We continued the contracted services for educating waterworks about source water protection and in developing and implementing their protection programs.

7. *Aggressively market the available drinking water programmatic and construction assistance, to assist waterworks owners and consumers.*

Progress Toward Goal 7: In addition to the mail out of applications for construction funds and set-aside suggestions, mail outs for the Planning and Design Grants and the 1452(k) loans for source water protection activities were accomplished. All of the Planning District Commissions (PDC) was provided information concerning the program and other forums (VRWA conference, etc.) were used to promote the program. In addition, we held six funding workshops throughout the state in February 2008 and March 2008 to discuss the DWSRF program and how to complete the various applications.

ODW field offices provided information on specific waterworks to target for various aspects of the Program.

The various applications, checklists, etc. were placed on the ODW web site. (www.vdh.virginia.gov/drinkingwater/financial)

B. Progress Toward Short-Term Goals

1. *Receive each year's DWSRF Program money as soon as possible from EPA so citizens of Virginia may benefit.*

Progress Toward Goal 1: ODW's solicitation to help develop the 2008 Intended Use Plan (IUP) was made in January 2007. Our 2008 application was submitted to EPA in July 2008. EPA awarded the 2006 grant in July 2006 and the 2007 grant in May 2008. ODW solicited to help develop the 2009 Intended Use Plan (IUP) in January 2008.

2. *Assist waterworks owners by creating innovative technical assistance programs.*

Progress Toward Goal 2: We continued the Planning and Design Grant Program and added the Leak Detection Grants. The Planning dollars have been most helpful to the small, rural, financially stressed waterworks which have not traditionally been exposed to the SDWA requirements or who needed small amounts of grant money (up to \$25,000 per project) to develop preliminary engineering reports, plans and specifications, source water quality and quantity studies, etc. Many of these grants have allowed them to expedite the preparation of applications for DWSRF Program, USDA Rural Development, and other construction funding.

3. *Promote consolidation and regionalization of water supplies and waterworks through both programmatic and construction assistance.*

Progress Toward Goal 3: The DWSRF Program's construction assistance was designed to encourage regionalization by providing more points for projects that consolidate waterworks. The capacity development Comprehensive Business Plan package encourages waterworks to consider consolidation in the planning process.

4. *Provide a source of low cost financing for drinking water needs.*

Progress Toward Goal 4: We designed a loan package where the maximum interest rate is 1% less than the AA municipal 20 year revenue bond rate. We fully incorporated affordability criteria into the construction assistance ranking system and utilized the maximum amount of loan forgiveness. Special consideration is given for disadvantaged communities. The Planning and Design grants will further reduce the necessary financing amounts for projects proceeding to construction.

5. *Ensure that all new Community and Nontransient Noncommunity water systems beginning operation after October 1, 1999, have the technical, financial, and managerial capacity with respect to each national primary drinking water standard in effect, or likely to be in effect, on the date of starting operations.*

Progress Toward Goal 5: We developed a Capacity Development Strategy, subsequently approved by EPA, which described the authority and procedures used to ensure new Community and Nontransient Noncommunity waterworks have the technical, financial, and managerial capacity prior to beginning operation.

6. *Ensure that operator certification regulations meeting EPA national requirements are applied and that coordination is provided to provide training courses; but especially for the low classifications needed at the smaller waterworks.*

Progress Toward Goal 6: EPA approved Virginia's Operator Certification Program (OCP) in July 2001. EPA has awarded the full award of \$3,598,800 to Virginia for the Operator Certification Expense Reimbursement Grant (ERG). Per letter dated September 2004, EPA determined that in fiscal year 2004 VDH continued to successfully implement Virginia's OCP. As a result, it was not necessary to withhold any of Virginia's fiscal year 2006 allotment for the DWSRF grant. ODW submitted the annual Operator Certification report in June 2007.

ODW requested in August 2006 a transfer of funds in the amount of \$1,080,124 from the ERG Grant to the State Revolving Fund Grant (SRF) in federal fiscal year 2007. The funds will be used to assist waterworks operators to meet their training and certification needs. ODW awarded a contract to Virginia Tech (VT) in the amount of \$56,418 to develop and deliver an "Establishing a Successful and Sustainable Waterworks: Revenues, Rates and Funding" short course. The short course was held at the Richmond Higher Education Center located in Richmond, Virginia on September 15-18, 2008. The topics included such items as: (1) Inventory and Assessments of Assets Costs (2) Identification of Fixed, Variable, and True Costs (3) Staffing and Operating Analysis (4) Budget Development (5) Capital Improvement Plan Process (6) Estimating the Cost of the Project and Revenue Enhancements (7) Rate Comparison (8) Components of a Successful Funding Application (9) Identifying Outside Resources and Expertise and (10) How to Apply for Various Grants. ODW renewed this contract with VT in August 2008 to continue this short course for another year.

DWSRF PROGRAM SET-ASIDE AND LOAN PROJECTS ACTIVITIES

A. Sources of DWSRF Program Funds

As of June 30, 2008, ODW has received eleven capitalization grants totaling \$151,949,924. EPA awarded the 2007 grant award of \$9,841,124 to ODW in May 2008. ODW is required to provide state matching funds equal to 20% of the each capitalization grant. ODW has a cumulative state match appropriation of \$35,443,705, including \$1.96 million appropriated in state fiscal year 2008. The 2007 capitalization grant was included as a source of funds in state fiscal year 2008 since it was received during the reporting period. All of the principal repayments, interest repayments, and interest earnings have not been included in an IUP. The Virginia Department of Environmental Quality transferred \$1 million in loan repayments from their Water Facilities Revolving Fund to ODW's DWSRF Program in August 2002. Beginning with the 2004 capitalization grant, administrative loan fees are being collected on projects that close with an interest rate. The administrative loan fees are fifty one-hundredths percent (.50%) per annum and are included as part of the interest rate. As of June 30, 2008, only two projects have initiated administrative loan fee payments. **Table 1** shows the capitalization grant awards and other sources of funding received during this reporting period.

TABLE 1: ALLOCATION OF FUNDS			
I. SOURCES OF FUNDS	2008	Previous	Cumulative
Capitalization Grant	\$ 9,841,124	\$142,108,800	\$151,949,924
20% State Match	1,735,980	23,613,404	25,349,384
State Funds- Deferred Match	0	5,888,480	5,888,480
Additional State Funds	0	5,053,720	5,053,720
Principal Repayments	3,421,512	12,996,316	16,417,828
Interest Repayments	620,807	3,140,006	3,760,813
Interest Earned on Investments	802,223	1,444,655	2,246,878
Transfer from Water Facilities Revolving Fund (CWSRF)	0	1,000,000	1,000,000
Administrative Loan Fees and Interest	31,156	22,873	54,029
TOTAL	\$16,452,802	\$195,268,254	\$211,721,056
II. USES OF FUNDS			
A. DWSRF LOAN ACCOUNT BINDING COMMITMENTS			
Standard Loans 1452(a)	\$ (1,051,996)	\$7,338,371	\$6,286,375
Small Systems 1452(a)(2)			
Standard	1,745,796	13,810,347	15,556,143
Disadvantaged Communities 1452(d)	7,579,324	123,363,399	130,942,723
Small System Subtotal:	9,325,120	137,173,746	146,498,866
Endowment – Coalfield Water Development Fund	0	10,000,000	10,000,000
Closed Loan Subtotal:	8,273,124	154,512,117	162,785,241
Unclosed Loan Funds	(27,318,667)	54,360,933	27,042,266
Subtotal Loan Funds	(19,045,543)	208,873,050	189,827,507
B. SET-ASIDE ACCOUNT WORK PLAN COMMITMENTS			
1. Administration and Technical Assistance (max. 4%) 1452(g)(2)			
Administration	163,028	4,045,541	4,208,569
Technical Assistance	0	1,869,428	1,869,428
Administration and Technical Assistance Subtotal:	163,028	5,914,969	6,077,997
2. Technical Assistance (max. 2%) 1452(g)2	25,831	2,023,669	2,049,500
3. State Program Management (max. 10%) 1452(g)2			
PWSS Program	767,672	5,885,109	6,652,781
Source Protection	48,945	419,797	468,742
Operator Certification	46,972	383,654	430,626
Capacity Development	86,411	129,183	215,594
State Program Management Subtotal:	950,000	6,817,743	7,767,743
4. Local Assistance/Other State Programs (max.15%) 1452(k)			
Source Water Delineation and Assessment	0	2,944,240	2,944,240
Source Water Land Acquisition	0	0	0
Capacity Development	(32,840)	4,220,357	4,187,517
Wellhead Protection	59,000	150,000	209,000
Local Assistance/Other State Programs Subtotal:	26,160	7,314,597	7,340,757
Subtotal Set-Asides	1,165,019	22,070,978	23,235,997
TOTAL	\$ (17,880,524)	230,944,028	213,063,504

NOTE: ADJUSTMENTS WERE MADE TO THE 2008 SOURCE OF FUNDING AND USES OF FUNDS TO RECONCILE CUMULATIVE NUMBERS WITH THE DWNIMS REPORT.

B. Uses of DWSRF Program Funds

1. Allocation of DWSRF Program Funds

The capitalization grant is allocated between two categories: (1) construction project loan funds, which are to be utilized for construction at public drinking water systems, and (2) non-project funds or set-asides. For each capitalization grant award, ODW develops an Intended Use Plan (IUP) which describes how the State intends to use the available DWSRF Program funds for the year. The IUP also describes the amount of funds that will be used for these various activities. The IUPs were made available to the public for review and comment prior to being submitted to the U.S. Environmental Protection Agency (EPA).

The Safe Drinking Water Act Amendments of 1996 establish the capitalization grant percentage limits that can be spent for project loans and the four individual set-aside activity areas. The 20 percent state match is for use in awarding project loans. Up to 31 percent of the capitalization grant can be allocated to the four set-aside activities. The set-aside activities include up to 4 percent for administrative expenses, up to 10 percent for state program management, up to 2 percent for small system technical assistance, and up to 15 percent for local assistance and other state programs. ODW allocated a total of \$12,357,917 to project loan funds, which includes the 20% state match and \$1,968,225 to the set-asides in the 2007 IUP. **(Table 1)** The project loan funds allow up to 30% of each capitalization grant be used for principal forgiveness for communities that qualify as disadvantaged. ODW elected to allocate up to the entire 30%. **Table 7** shows the status of disadvantage assistance provided. **Table 2** shows the actual state fiscal year 2008 disbursements and cumulative disbursements. **Appendix B** shows construction project loan disbursements by individual project, by quarter, and by federal and state.

TABLE 2: DISBURSED DWSRF PROGRAM FUNDS BY STATE FISCAL YEAR			
USES OF DISBURSED FUNDS	State Fiscal Year 2008	Previous State Fiscal Years	Cumulative
A. PROJECT LOAN ACCOUNT			
Standard Loans 1452(a)	\$5,180,3540	\$1,026,523	\$6,206,877
Small Systems 1452(a)(2)			
Standard	(431,453)	\$20,828,117	\$20,396,664
Disadvantaged Communities 1452(d)	4,261,465	114,457,442	118,718,907
Small System Subtotal:	3,830,012	135,285,559	139,115,571
Endowment – Coalfield Water Development Fund	0	10,000,000	10,000,000
Project Loan Subtotal:	9,010,366	146,312,082	155,322,448
B. SET-ASIDE ACCOUNT			
1. Administration and Technical Assistance (max. 4%) 1452(g)(2)			
Administration	479,190	3,333,154	3,812,344
Technical Assistance	10,584	1,620,960	1,631,544
Administration and Technical Assistance Subtotal:	489,774	4,954,114	5,443,888
2. Technical Assistance (max. 2%) 1452(g)(2)	202,571	1,759,773	1,962,344
3. State Program Management (max. 10%) 1452(g)(2)			
PWSS Program	1,123,751	4,829,837	5,953,588
Operator Certification	33,280	376,178	409,458
Capacity Development	60,610	97,429	158,039
Source Water Protection	3,748	225,119	228,867
State Program Management Subtotal:	1,221,389	5,528,563	6,749,952
4. Local Assistance/Other State Programs (max. 15%) 1452(k)			
Source Water Delineation and Assessment	0	2,940,313	2,940,313
Source Water Land Acquisition	0	0	0
Wellhead Protection	116,961	0	116,961
Capacity Development	363,825	2,532,250	2,896,075
Local Assistance/Other State Programs Subtotal:	480,786	5,472,563	5,953,349
Set-Aside Subtotal:	2,394,520	17,715,013	20,109,533
C. Grand Total	\$11,404,886	\$164,027,095	\$175,431,981

2. Set-Aside Activity Status

Administration and Technical Assistance

The administrative expense set-aside is used for administration of the DWSRF Program and general technical assistance. ODW has eight employees to assist in administering the DWSRF Program, however all but one of these employees is being paid from other funding sources.

The administration of the DWSRF Program activities also includes banking type services of the project loans performed by the Virginia Resources Authority, annual audits performed by the State Auditor or their agent, and travel costs. The majority of funds paid from this set-aside, \$260,992 have been to the Virginia Resources Authority (VRA) for credit evaluation and loan servicing for project loans. The State's Auditor of Public Accounts (APA) conducts an annual statewide single audit for the Commonwealth of Virginia in accordance with OMB Circular A-133. The APA is planning to audit the DWSRF program as a "Major Federal Program" for the fiscal year ending June 30, 2008. A private CPA firm is engaged by the State's APA to perform an annual audit of the construction State Loan Fund. The PBGH, LLP Certified Public Accountants conducted an audit of VRA financial records in August 2008. The Attorney General's Office has provided legal advice on agreements and contracts. During this reporting period, ODW and VRA have completed the following administrative activities:

- Solicitation of applications
- Conduct six funding workshops throughout the state
- Development of comprehensive list of projects
- Project selection and development of Intended Use Plan
- Preparation of Capitalization Grant Application
- Met with prospective recipients
- Evaluation of waterworks for technical, financial and managerial capacity
- Monitor/Administer project construction
- Credit Analysis
- Loan Servicing
- Fund Administration

Indirect costs were recovered in fiscal year 2008.

The technical assistance activities consisted of planning and design grants. Because of budget constraints in this set-aside, the planning and design grants have been moved to the Local Assistance set-aside. This set-aside will continue to fund three open projects from 1997 to 2003. During state fiscal year 2008, two projects were reimbursed in the amount of \$10,584. The City of Chesapeake and Scott County submitted requisitions for disbursement. Currently, VDH has one open planning grant with the Washington County Service Authority (WSCA). Our office has reimbursed the WSCA in the amount of \$1,221.48 which leaves an available grant balance of \$13,670.52.

Small Systems Technical Assistance

During state fiscal year 2008 ODW continued the contract with Olver, Inc. to work with waterworks in developing and implementing a Source Water Protection Program. ODW renewed this contract in July 2007 covering the period of July 1, 2007 through June 30, 2008 for \$109,519. This contractor assisted three waterworks in the development of a Source Water Protection Program during this reporting period. Eighty-one waterworks were contacted and the waterworks were invited to participate in the program. Nine Local Advisory Committee meetings were held during this reporting period. One program presentation was made for Vint Hill Economic Development Authority. Also, past program participants

were contacted to determine how the program had impacted them and obtain feedback on the program. Olver received positive responses from the waterworks. The waterworks have implemented the public education brochure, contractor brochure, signs, and fencing install. The contract ended in June 2008, but ODW plans to continue this activity in SFY 09 under the 15% set-aside due to budget constraints under the 2% set-aside.

ODW continued to contract with Virginia Polytechnic Institute and State University (VA Tech) to provide Professional Development Seminars to water utility owners, managers, and operators. ODW entered into another contract in June 2007 with VA Tech to conduct 9 Professional Development Seminars from July 2007 through June 2008 for \$167,040. During this reporting period, 8 seminars were held at no cost to the attendee. **Table 3** shows the actual seminars conducted during this reporting period. These three hour seminars were broadcast simultaneously to 13 locations in Virginia. The sites are located throughout the Commonwealth so that they can be reached from the locality within an hour and 45 minutes. A total of 798 individuals attended these 8 seminars. Those attendees that score 80% or better on the quizzes given at the end of the classes are given CEUs. ODW entered into another contract with VA Tech to conduct 9 Professional Development seminars for the period of July 2008 – June 2009 for \$155,295. See VA Tech website <http://www.cpe.vt.edu/cpewater> for additional details.

TABLE 3: PROFESSIONAL DEVELOPMENT SEMINARS		
TOPIC	DATE	ATTENDEES
Emergency Preparedness in the Drinking Water Industry	July 18, 2007	99
Disinfection and Disinfection Math	September 19, 2007	76
Gravity Filter Operations and Management	October 17, 2007	86
Analysis of Assets and Budget Preparation	February 20, 2008	114
The Project PER: Preparation, Planning, and Cost Estimating	March 19, 2008	73
Strategies for Effective Water Quality Sampling	April 16, 2008	120
Capital Improvements Planning	May 21, 2008	88
The Applied chemistry of Water Treatment and Analyses	June 18, 2008	142
TOTAL		798

State Program Management

ODW used these funds to supplement the State Public Water Supply Supervision (PWSS) Program, develop and implement a capacity development program, and develop and implement an operator certification program.

a. State Program Management: Source Water Protection Program Administration

ODW's "geologist" (special projects engineer) continued to coordinate the efforts needed by the state to oversee source water activities until vacating the position in February 2006. ODW will fill this position in October 2008.

b. State Program Management: Public Water Supply Supervision (PWSS) Program

ODW continued to support the courier system to get required samples to the State Lab.

ODW continued employing a part-timer to assist in the process of implementing new federal rules.

ODW expended \$130,187 for a portion of the rent for the three field offices.

Indirect costs were recovered in fiscal year 2008.

c. State Program Management: Capacity Development

Over the past eight years, ODW has completed the following activities in ensuring a successful implementation of the Capacity Development Strategy:

- Developed and initiated a capacity development strategy plan as approved by the Environmental Protection Agency.
- Performed a baseline assessment of all Community and Nontransient-Noncommunity water works capacity.
- Incorporated baseline assessment data into a database.
- Began evaluation of data for allocation of ODW resources towards improvement.
- Established an Oversight Committee to aid in directing our resources.
- Utilized the contractual services of multiple organizations such as Abacus Corporation and Mountain Empire Community College.
- Established a committee to revise the Comprehensive Business Plan which aids in the evaluation of waterworks technical, managerial, and financial capabilities.

d. State Program Management: Operator Certification

Virginia has had a waterworks operator licensure law and regulations since 1971. Licensure is generally accepted as being more stringent than certification. The Department of Professional and Occupational Regulation Board administers the licensure law for Waterworks and Wastewater Work Operators. The Director of the Office of Drinking Water is a member of this licensure Board.

ODW submitted its Operator Certification Program in January 2001 in accordance with Section 1419(b) of the Safe Drinking Water Act. EPA approved the program in July 2001. EPA awarded 78.11% of the Operator Certification Expense Reimbursement Grant to Virginia in May 2002 and the remaining 21.89% in May 2003. ODW hired a full time coordinator for this grant in January 2003. ODW submitted the final report in December 2007. The SRF grant under the 10% set-aside will continue to provide training for the waterworks operators. ODW awarded two contracts to VA Tech to provide short training courses for waterworks operators. The title of the courses are as follows: (1) Very Small Water Supply Systems Training, and (2) Applied Math and Basic Science for Waterworks Operators Short. The contract amounts are \$40,000 and \$70,000. The contract period for both courses is from August 2008 through June 2009.

ODW continued the contract with Mountain Empire Community College (MECC) for development and maintenance of the College's on-line distance learning Water Degree Program. ODW renewed this contract in September 2008 for \$46,972 covering the period of August 2008 through July 2009. (See <http://water.me.vccs.edu/> for additional information.) **Appendix D** shows the number of students enrolled during state fiscal year 2008.

Local Assistance and Other State Programs

Virginia used funds from its local assistance set-aside for source water delineation and assessment and capacity development. Also, funds were made available for land acquisition for source water protection.

a. Local Assistance and Other State Programs - Source Water Delineation and Assessment

ODW continues to perform source water assessments on all new sources and when significant changes to sources require evaluation.

b. Local Assistance and Other State Programs – Capacity Development

ODW awarded \$50,000 budgeted for leak detection grants to the Town of Big Stone Gap and Giles County.

ODW continues to offer planning and design grants to private and public owners of community waterworks as part of the general technical assistance. The 2008 IUP allocated \$300,000 for planning and design grants in this set-aside. These grants can be up to \$25,000 per project and are for small, rural, financially stressed, community waterworks serving fewer than 3,300 persons. Eligible costs may include preliminary engineering reports, design of plans and specifications, performance of source water quality and quantity studies, drilling test wells to determine source feasibility, or other similar technical assistance projects. For this reporting period, 13 planning grants for \$307,500 were awarded (**See Table 4**) and \$361,458 was disbursed.

TABLE 4: PLANNING GRANTS

	Owner Name	Description	Population	Amount Funded
1	Goshen, Town of	Preparation of a revised PER to evaluate the entire water system; development of a management and operations plan; conduct a water rate study; conduct an Environmental Review; grant administration and project management provided by the Central Shenandoah PDC for the proposed project; preparation of plans and specifications for the replacement of the water line and any modifications needed for the operation of the Big River tank; and review and approval by the VDH Lexington Field Office.	406	\$25,000
2	Tangier, Town of	Evaluate the technical feasibility of developing sustainable, high quality groundwater wells on Tangier Island. The evaluation will include: development of a Water Supply Plan for Tangier; review existing hydro geologic data; estimate the groundwater development potential; develop a cost estimate for signing, constructing, developing, and permitting additional groundwater wells to replace existing wells; a task report; preparation of an aquifer testing plan for submittal to DEQ for review; and to obtain a groundwater withdrawal permit application.	604	\$25,000
3	Town of St. Paul	The project will consist of a field reconnaissance to identify know problem areas in field and note locations on water system maps; the Town will contract with a leak detection specialist who will utilize a leak correlator to identify leaks in existing pipes on system maps; a complete Leak Detection Report will be submitted to the Town and VDH Abingdon Field Office for review; and the Town will provide in-kind services as a match to the grant amount.	860	\$7,500
4	Boones Mill, Town of	The proposed study will examine existing water lines which are currently serving 350 customers for the Town of Boones Mill and will include a Leak Detection Study, a calibrated Hydraulic Model, and a Preliminary Engineering Report.	350	\$25,000
5	Bland County	The Bland Water System Leak Detection Analysis and PER will include a leak detection study, mapping updates, record keeping, and system planning report.	375	\$25,000
6	Appomattox, Town of	To evaluate the costs of locating and developing a new reliable groundwater source to replace an existing groundwater source that is under the influence of surface water which will be divided into the following phases: Phase 1-site identification, Phase II-geophysical evaluation, Phase III-site evaluation and priorization , Phase IV-test well construction, Phase V-plans and technical specifications preparation, Phase VI-contract document preparation and procurement, and Phase VII-production well construction.	2,242	\$25,000
7	Augusta County Service Authority	To prepare a Preliminary Engineering Report to evaluate any necessary distribution improvements and to determine the location of chlorine booster station if needed.	88	\$25,000
8	Louisa, Town of	To perform a study to identify inadequacies in the water distribution system that may contribute to elevated levels of disinfection byproducts; provide a prioritized list of cost effective solutions for lowering the levels of disinfection byproducts in the water distribution system; and develop a periodic maintenance plan for maintaining levels of disinfection byproducts.	1,501	\$25,000

	Owner Name	Description	Population	Amount Funded
9	Nelson County Service Authority	An intense study of the Schulyer waterworks to evaluate existing conditions; evaluate modifications for treatment; evaluate additional treatment processes; evaluate improved system hydraulics; prepare a Preliminary Engineering Report for submission to VDH.	1,271	\$25,000
10	Dayton, Town of	The planning grant will be used to help fund Phase II of the project to refine the drilling site, drill a test well, and determine the quantity and quality of water available for development in the later Phases of the project. The other Phases include Phase 3-design, Phase 4-procurement, and Phase 5-construction.	1,700	\$25,000
11	Cumberland County	Prepare plans and specifications to extend public water service approximately 1.5 miles westward-roughly 9,000 linear feet-to end at the junction of US Route 60 and Highway 45 S.		\$25,000
12	Augusta County Service Authority	To prepare a Preliminary Engineering Report to evaluate any necessary distribution improvements and to determine the location of chlorine booster station if needed.	1,618	\$25,000
13	Rockbridge County Public Service Authority	This planning grant will be used to fund the development of a calibrated hydraulic model for the Timber Ridge to Raphine pressure zones of the North Lexington water system and the report submitted to the Lexington Field Office for review and approval.	855	\$25,000
		TOTAL		\$307,500

c. Local Assistance and Other State Programs - Land Acquisition for Source Water Protection

No additional funding from this set-aside was provided for loans to public water systems for the purchase of land or conservation easements and for incentive-based voluntary protection measures.

No loans have been made to date. ODW transferred \$2,888,953 of unused land loan funds to construction project funding in fiscal year 2003. These funds were used to fund project identified in the 2001 IUP.

d. Local Assistance and Other State Programs – Wellhead Protection

DEQ is the lead agency on this third year activity. DEQ did not receive enough funding requests to use ODW funding in SFY 06 and SFY 07. However, four awards were issued to four different localities in SFY 07. The 2006 awards totaled \$147,389. DEQ will fund the first \$60,000 in expenditures and ODW will fund the balance of \$87,389 in SFY 08. The total expenditures for the 06 awards were \$127,111.27. VDH reimbursed DEQ a total of \$67,111.27 on the 06 grant awards in SFY 08.

DEQ announced its third year funding opportunities for wellhead protection in July 2007. Three awards were issued for a total funding of \$160,000. VDH approved an increase in funding of \$18,000 for the Augusta County Service Authority in October 2007. Therefore, VDH total commitment on the 2007 award is \$118,000. DEQ commitment was increased to \$64,858 on the 2007 award. The new award amount is \$182,858.

DEQ issued a request for proposals (RFP) on July 14, 2008 for the fourth year of funding opportunities for the wellhead protection program. ODW will commit a total of \$65,000 for all awards issued under this RFP. For additional information on DEQ wellhead protection program see **Table 5** and **Appendix E**.

Table 5: DEQ Wellhead Protection Implementation Award**2007 Awards**

Rye Valley Water Authority, the Town of Lovettsville, and Augusta County Service Authority successfully competed to receive funding under an RFP issued specifically for wellhead protection projects. The Virginia Department of Health and the Virginia Department of Environmental Quality cooperated on the issuance of the RFP and in developing the funding sources for future projects. Rye Valley Water Authority received \$27,075 to erect fencing around several springs and to install vaults; the Town of Lovettsville received \$52,383 to continue their well owner education and well abandonment program; Augusta County Service Authority received \$103,400 to identify the recharge area for the Lyndhurst well system.

2006 Awards

James City Service Authority, the Towns of Lovettsville and Stanley, and the County of Wythe successfully competed to receive funding under an RFP issued specifically for wellhead protection projects. The Virginia Department of Health and the Virginia Department of Environmental Quality cooperated on the issuance of the RFP and in developing the funding sources for future projects. James City Service Authority received \$15,000 to continue their well abandonment program; the Town of Lovettsville received \$50,067 to initiate a well owner education and well abandonment program; the Town of Stanley received \$45,219 to identify the recharge area for a new well, identify potential sources of contamination, and update their planning maps; the County of Wythe received \$37,104 for wellhead protection plan development, promotion, and source delineation.

2005 Awards

Accomack Northampton Planning District Commission and James City Service Authority successfully competed to receive funding under an RFP issued specifically for wellhead protection projects. The Virginia Department of Health and the Virginia Department of Environmental Quality cooperated on the issuance of the RFP and in developing the funding sources for future projects. Accomack Northampton Planning District Commission will receive \$9,000 to implement a Household Hazardous Waste Disposal program and \$7,250 to establish a Public Education Campaign for Children which will assist teachers on the Eastern Shore with ground water resource educational activities. James City Service Authority will receive \$15,000 to continue their award winning “CapIt” program.

SET-ASIDE UTILIZATION CHARTS

SET-ASIDE UTILIZATION 1998 GRANT AWARD As of June 30, 2008				
	Technical Assistance	Program Management	Local Assistance	Total
ALLOCATED	\$866,754	\$572,330	\$3,871,843	\$5,310,927
CUMULATIVE OBLIGATED	\$866,754	\$572,330	\$3,871,843	\$5,310,927
% OBLIGATED	100%	100%	100%	100%
EXPENDED	\$866,754	\$572,330	\$3,871,843	\$5,310,927

SET-ASIDE UTILIZATION 1999 GRANT AWARD As of June 30, 2008				
	Technical Assistance	Program Management	Local Assistance	Total
ALLOCATED	\$291,272	\$105,149	\$198,816	\$595,237
CUMULATIVE OBLIGATED	\$291,272	\$105,149	\$198,816	\$595,237
% OBLIGATED	100%	100%	100%	100%
EXPENDED	\$291,272	\$105,149	\$198,816	\$595,237

SET-ASIDE UTILIZATION 2000 GRANT AWARD As of June 30, 2008				
	Technical Assistance	Program Management	Local Assistance	Total
ALLOCATED	\$302,716	\$239,902	\$143,790	\$686,408
CUMULATIVE OBLIGATED	\$302,716	\$239,902	\$143,790	\$686,408
% OBLIGATED	100%	100%	100%	100%
EXPENDED	\$302,716	\$239,902	\$143,790	\$686,408

SET-ASIDE UTILIZATION 2001 GRANT AWARD As of June 30, 2008				
	Technical Assistance	Program Management	Local Assistance	Total
ALLOCATED	\$166,028	\$261,075	\$742,250	\$1,169,353
CUMULATIVE OBLIGATED	\$166,028	\$261,075	\$742,250	\$1,169,353
% OBLIGATED	100%	100%	100%	100%
EXPENDED	\$166,028	\$261,075	\$742,250	\$1,169,353

SET-ASIDE UTILIZATION 2002 GRANT AWARD As of June 30, 2008				
	Technical Assistance	Program Management	Local Assistance	Total
ALLOCATED	\$96,368	\$611,036	\$352,002	\$1,059,406
CUMULATIVE OBLIGATED	\$96,368	\$611,036	\$352,002	\$1,059,406
% OBLIGATED	100%	100%	100%	100%
EXPENDED	\$96,368	\$611,036	\$352,002	\$1,059,406

SET-ASIDE UTILIZATION 2003 GRANT AWARD As of June 30, 2008				
	Technical Assistance	Program Management	Local Assistance	Total
ALLOCATED	\$85,540	\$1,001,945	\$352,000	\$1,439,485
CUMULATIVE OBLIGATED	\$85,540	\$1,001,945	\$352,000	\$1,439,485
% OBLIGATED	100%	100%	100%	100%
EXPENDED	\$85,540	\$1,001,945	\$352,000	\$1,439,485

SET-ASIDE UTILIZATION 2004 GRANT AWARD As of June 30, 2008				
	Technical Assistance	Program Management	Local Assistance	Total
ALLOCATED	\$0	\$1,021,084	\$344,000	\$1,365,084
CUMULATIVE OBLIGATED	\$0	\$1,021,084	\$344,000	\$1,365,084
% OBLIGATED	0%	100%	100%	100%
EXPENDED	\$0	\$1,021,084	\$292,648	\$1,313,732

SET-ASIDE UTILIZATION 2005 GRANT AWARD As of June 30, 2008				
	Technical Assistance	Program Management	Local Assistance	Total
ALLOCATED	\$0	\$1,144,960	\$444,000	\$1,588,960
CUMULATIVE OBLIGATED	\$0	\$1,144,960	\$444,000	\$1,588,960
% OBLIGATED	0%	100%	100%	100%
EXPENDED	\$0	\$1,144,960	\$0	\$1,144,960

SET-ASIDE UTILIZATION 2006 GRANT AWARD As of June 30, 2008				
	Technical Assistance	Program Management	Local Assistance	Total
ALLOCATED	\$44,000	\$876,150	\$400,000	\$1,320,150
CUMULATIVE OBLIGATED	\$44,000	\$876,150	\$400,000	\$1,320,150
% OBLIGATED	100%	100%	100%	100%
EXPENDED	\$43,719	\$875,998	\$0	\$919,717

SET-ASIDE UTILIZATION 2007 GRANT AWARD As of June 30, 2008				
	Technical Assistance	Program Management	Local Assistance	Total
ALLOCATED	\$196,822	\$1,934,112	\$492,056	\$2,622,990
CUMULATIVE OBLIGATED	\$196,822	\$1,934,112	\$492,056	\$2,622,990
% OBLIGATED	100%	100%	100%	100%
EXPENDED	\$110,487	\$912,725	\$0	\$1,023,212

SET-ASIDE UTILIZATION CUMULATIVE ALL GRANTS As of June 30, 2008				
	Technical Assistance	Program Management	Local Assistance	Total
* ALLOCATED	\$2,049,500	\$7,767,743	\$7,340,757	\$17,158,000
CUMULATIVE OBLIGATED	\$2,049,500	\$7,767,743	\$7,340,757	\$17,158,000
% OBLIGATED	100%	100%	100%	100%
EXPENDED	\$1,962,344	\$6,749,952	\$5,953,349	\$14,665,645

3. Construction Project Loan Assistance Status

ODW entered into loan agreements with 12 public water systems totaling \$6,193,126 during this reporting period. The loans range from \$95,712 to \$2,290,957. The loan terms range from 20 to 30 years, and the weighted average interest rate was 0.22%. The water systems receiving these loans serve 3,761 people; systems receiving these loans range in size from 17 to 1,257 people. Cumulative loan closings are 165 totaling \$162,874,052. In the 1997 through 2008 IUPs, VHD identified 200 construction projects of which 35 projects are still targeted and 165 have closed. We disbursed \$9,010,366 in DWSRF Program project loans during this reporting period (**See Table 2**). **Table 6** lists the new loan agreements for this reporting period and provides a brief description of each project.

TABLE 6: LOAN AGREEMENTS FOR THIS REPORTING PERIOD													
Projects Funded by Capitalization Grant Only													
Priority Rank-ing	Project Name	Binding Commit-ment Date	Loan Amount	Grant Amount	Total Amount	Interest Rate	No. of Years	Project Description	Pop Served	Small System	Disad. Comm	Private PWS	Create New PWS
2004 IUP													
09	Vicey Station	12/20/07	\$51,686	\$44,029	\$95,715	0%	30	No reliable safe water supply available for the service area.	17	YES	YES	NO	NO
2006 IUP													
10	Independence-Water Distribution System Improvements	10/30/07	\$299,156	\$161,084	\$460,240	0%	30	Old, deteriorated and galvanized steel waterlines which result in maintenance problems and the potential for contamination due to leaks, breaks and repairs.	971	YES	YES	NO	NO
18	Possum Creek Water Project	9/14/07	\$554,730	\$0.00	\$554,730	0%	30	Inadequate water supplies and poor water quality.	185	YES	YES	NO	NO
19	Big A Mountain Water Phase 2 Extension	6/12/208	\$1,534,941	\$756,016	\$2,290,957	0%	30	Water supplies reported to be of general poor quality, intermittent and not dependable.	502	YES	YES	NO	NO
20	Wadlow Gap Water Line Extension	7/20/07	\$375,408	\$0.00	\$375,408	0%	30	Unsafe drinking water to homes served by wells and springs.	98	YES	YES	NO	NO
2007 IUP													
03	Boozy Creek Phase II - Line Extension	6/27/08	\$334,252	\$0.00	\$334,252	0%	30	Contamination of existing individual springs and/or wells and declining yield. Samples collected from private wells and springs yielded positive test results for E coli and total coliform contamination.	81	YES	YES	NO	NO
04	Scott Co PSA- A.P. Carter Highway -Line Extension	1/25/08	\$365,822	\$0.00	\$365,822	0%	30	Private individual springs and/or wells with inadequate water quality and quantity. Samples collected showed both E coli and total coliform contamination.	106	YES	YES	NO	NO

Priority Rank-ing	Project Name	Binding Commit-ment Date	Loan Amount	Grant Amount	Total Amount	Interest Rate	No. of Years	Project Description	Pop Served	Small System	Disad. Comm	Private PWS	Create New PWS
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2007 IUP (cont'd)

09	Town of Gretna-Water Treatment Plant Filter Rehabilitation	4/18/08	\$260,000	\$0.00	\$260,000	0%	30	Significant amount of media loss and the media is no longer uniform.	1257	YES	YES	NO	NO
15	Scott Co PSA-Frisco (Rt 639) Water Line Extension	1/25/08	\$280,446	\$0.00	\$280,446	0%	30	Unreliable water from privately owned wells and springs.	69	YES	YES	NO	NO
17	Dickenson Co PSA-Tempest Branch Line Extension	3/28/08	\$321,200	\$0.00	\$321,200	0%	30	Individual private sources are not reliable. Residents often haul water and store in various types of containers that often are in poor condition and susceptible to contamination.	107	YES	YES	NO	NO
18	TCPSA-Red Ash Water Line Extension	12/20/07	\$309,055	\$0.00	\$309,055	0%	30	Unsafe and unreliable source of water from privately owned individual wells or springs with quantities that often vary.	203	YES	YES	NO	NO

2008 IUP

01	Lilly Subdivision Sanitary District-Lilly System Upgrade	4/29/08	\$456,490	\$0.00	\$456,490	3.05%	20	The existing well is classified as groundwater under the influence of surface water.	165	YES	NO	NO	NO
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Total Loan Agreements		\$5,143,186	\$961,129	\$6,104,315					3,761				

Binding Commitment

On a cumulative basis, loan closings total \$162,874,052, which is 85.8% of targeted loan funds from eleven grant awards. We have targeted \$176.8 million in loans, have loan recipient acceptance letters for \$174.1 million, and have \$162.7 million in loan closings. As a condition of the Assistance Agreement, ODW is required to enter into binding commitments equaling the amount of grant payments and state match within one year after ODW receives a grant payment. **Appendix A** tracks the progress toward achievement of this requirement.

State Fiscal Year	# of Binding Commitments	Amount
1998	1	\$ 4,000,000
1999	3	\$ 8,000,000
2000	15	\$ 15,114,517
2001	20	\$ 24,410,390
2002	30	\$ 33,827,968
2003	19	\$ 22,218,265
2004	16	\$ 11,667,041
2005	17	\$ 10,654,508
2006	17	\$ 16,833,000
2007	15	\$ 9,955,237
2008	12	\$ 6,193,126
Total	165	\$162,785,241

Disbursements for Projects

We have disbursed \$155.1 million –81.7% of all targeted loan funds and 95.3% of all committed loan funds. A total of \$33,008,632 in state matching funds is included in the disbursements.

Project Bypass

For the 2007 IUP fundable list, the Green Valley Water line extension (Project #21-07) rejected the loan because of the terms. ODW selected to bypass two projects from the 2008 fundable list. The Scott County – Blackwater Project was bypass as a result of DHCD declining to fund a related Lee County Blackwater project. At the time, Scott County did not want to proceed on their Blackwater project without the Lee County project moving forward. Washington County Service Authority (WCSA) – Red Fox Lane Water Line Extension was bypass due to unresolved legal issues. Also, WCSA had several approved projects that are not under construction as of September 2007.

Small Systems That Will Benefit

ODW plans to commit a total of \$13.6 million (100%) of the project funds from the 2008 IUP to small systems. As of June 30, 2008, all but one closed project (Project #04-98 – Washington/Chilhowie) for \$1,333,975 has been to a small system.

Disadvantaged Community Systems

TABLE 7: STATUS OF DISADVANTAGED ASSISTANCE AS OF JUNE 30, 2008					
Fiscal Year	Total Award	30% Limit	Amount of Disadvantaged Subsidy Provided	% Provided to Disadvantaged Systems	Remaining Balance
97	\$29,442,400	\$ 8,832,720	\$ 8,467,947	95.9%	\$ 364,773
98	\$13,895,300	\$ 4,168,590	\$ 4,168,500	100.0%	\$ 90
99	\$14,563,600	\$ 4,369,080	\$ 4,369,080	100.0%	\$ 0
00	\$15,135,800	\$ 4,540,740	\$ 4,540,740	100.0%	\$ 0
01	\$15,198,400	\$ 4,559,520	\$ 4,559,520	100.0%	\$ 0
02	\$11,127,600	\$ 3,338,280	\$ 3,338,280	100.0%	\$ 0
03	\$11,060,700	\$ 3,318,210	\$ 3,318,210	100.0%	\$ 0
04	\$11,473,900	\$ 3,442,170	\$ 3,442,170	100.0%	\$ 0
05	\$11,449,600	\$ 3,434,880	\$ 1,271,652	37.2%	\$ 2,163,228
06	\$ 8,761,500	\$ 2,628,450	\$ 1,351,433	51.4%	\$ 1,277,017
07	\$ 9,841,124	\$ 2,628,300	\$ 0	0.0%	\$ 2,628,300
08	\$ 8,679,899	\$ 2,601,900	\$ 0	0.0%	\$ 2,601,900
Total	\$142,108,800	\$47,862,840	\$38,827,532	81.1%	\$ 9,035,308

During this reporting period, ODW closed 12 loans totaling \$6.1 million to systems serving disadvantaged communities. These loans included loan forgiveness of \$0.9 million. To date ODW has provided loan forgiveness of \$37 million.

4. Coalfield Water Development Fund

The Coalfield Water Development Fund, Inc. (CWDF) is a non-profit charitable organization that provides grant assistance for waterworks construction in Planning Districts 1 and 2 which includes the counties of Lee, Scott, Wise, Dickenson, Russell, Tazewell, Buchanan and the City of Norton. Four loans totaling \$10 million have been made to the CWDF to set up a regional endowment using funds from Virginia's DWSRF Program. The loans to CWDF are at an interest rate of 0% for 30 years with a balloon payment of principal due at the end of the period. Virginia is the only state designated to establish an endowment fund. The loan principal is held in trust to earn dividends and interest and the endowment income is used to make construction grants in Planning Districts 1 and 2 of Southwest Virginia.

Due to a decline in the market, the CWDF Board voted to not offer grant funds for State Fiscal Years 2004 and 2005. ODW, EPA, and the CWDF Board worked together and have modified the spending policy to allow the CWDF to increase grant-making. The CWDF awarded \$215,000 in grant funding for State Fiscal Year 2006 and \$350,000 in grant funding for State Fiscal Year 2007.

ODW performed an on-site review of the CWDF in November 2005. The on-site review covering the reporting periods ending June 30, 2006 and June 30, 2007 was conducted in November 2007. ODW plans to perform an on-site review during state fiscal year 2010 to cover the periods ending June 30, 2008 and June 30, 2009.

IV. FINANCIAL SUMMARY

A. Status of Loans

We have closed \$162.8 million in loans as of June 30, 2008.

B. Loan Disbursements/Cash Draw Proportionality

ODW expended \$2,032,165 in state match during this reporting period. \$4,883 of this match was for the 1997 grant; \$8,881 was for the 2002 grant; \$51,891 of this match was for the 2003 grant; \$453,164 was for the 2004 grant; \$353,257 of this match was for the 2005 grant; \$696,865 was for the 2006 grant; \$402,855 of this match was for the 2007 grant and \$60,369 was 2008. ODW calculates the proportionate federal share using the grant-by-grant basis. See **Appendix B** for detailed loan disbursements.

C. Set-Aside Disbursements

We have disbursed \$2.3 million in set-aside funds during this reporting period. **Table 2** breaks out the disbursements by set-aside activity.

D. Annual Repayment/Aging of Account

The DWSRF program received \$3,421,512 in principal repayments and \$620,807 in interest repayments during this reporting period.

E. Loan Portfolio Analysis

For the 12 loans that closed during this reporting period, none of the recipients were rated. The entire loan portfolio balance is not rated.

F. Financial Statements

The 2008 audited financial statements of our “State Loan Fund,” the Virginia Water Supply Revolving Fund, which is maintained at the Virginia Resources Authority, will be issued in October 2008. EPA will receive a copy of the audit report electronically.

V. COMPLIANCE WITH AGREEMENTS

ODW has complied with a number of conditions in the Grant Agreement, unless noted otherwise. We have met and continue to be in compliance with the following conditions:

- Establish state authority
- Comply with applicable state laws and procedures
- Review technical, financial, and managerial capacity of assistance recipients
- Establish State Loan Fund account, set-aside account, and administration account
- Deposit all funds in appropriate accounts
- Follow state accounting and auditing procedures
- Require loan recipient accounting and auditing procedures
- Submit IUP and use all funds in accordance with the plan
- Comply with enforceable requirements of the Act
- Establish capacity development authority
- Implement/maintain system to minimize risk of waste, fraud, abuse, and corrective action
- Develop and submit project priority ranking system

We more fully discuss and have met the following conditions.

A. Binding Commitments within One Year

ODW entered into binding commitments within one year of receipt of the ACH payments for all four quarters during this reporting period. ODW has taken aggressive action to address previous non-compliance with this requirement, which is evidenced by the fact we are in compliance for the ending reporting period. **Appendix A** tracks our progress towards achieving this goal.

B. Deposit State Matching Funds

ODW expended \$2,032,165 in state match during this reporting period. See **Appendix B** which demonstrates that the required state match was achieved. Cumulative state match appropriation as of June 30, 2008 was \$36,291,584.

C. Submit Biennial Report and Annual Audit

ODW elected to prepare an annual report for fiscal year 2008 even though it was an off year and not required.

The State's Auditor of Public Accounts (APA) conducts an annual statewide single audit for the Commonwealth of Virginia in accordance with OMB Circular A-133. The APA will audit the DWSRF program as a "Major Federal Program" for the fiscal year ended June 30, 2008. A private CPA firm is engaged by the APA to perform an annual audit of the construction State Loan Fund.

D. Assure That Borrowers Have Dedicated Source of Repayment

Detailed financial analyses and credit summaries are performed for each applicant prior to entering into a loan commitment. Each loan recipient must also establish one or more dedicated sources of revenue for repayment of the loan. Dedicated sources of revenue can be water and/or sewer revenue pledges, general tax pledges or a combined pledge of revenues and full faith and credit.

E. Ensure Recipients Compliance with Applicable Federal Cross-Cutting Authorities

VDH has established monitoring methods to ensure compliance with federal cross-cutting requirements. Interim project evaluations are conducted on-site on a monthly basis. In addition, administrative/financial reviews are conducted during the course of each project at specified intervals. We see no problem in complying with federal cross-cutting requirements and are prepared to continue our monitoring efforts to ensure compliance.

For the 1998 grant award, the MBE goal was 2% and the WBE goal was 1.5%. Beginning with the 1999 grant award, we studied the availability of contractors in this field to establish the MBE and WBE goals. ODW approved goals are range from 0.8% to 1.7% for MBE and 0.5% to 0.8% for WBE effective October 1, 2006. For the reporting period ending June 30, 2008, we achieved 0% of the MBE goal and 0.94% of the WBE goal.

F. Conduct Environmental Reviews

The 12 public water systems receiving assistance during state fiscal year 2008 were reviewed and approved using the state's environmental review procedures. It was determined that no Environmental Impact Statements were necessary. Four projects qualified for a Categorical Exclusion because there was no impact on the environment. For the remaining eight projects, an Environmental Assessment was prepared and a Finding of No Significant Impact was issued.

G. Implement Capacity Development Strategy

ODW opted not to renew the contract with the Southeast Rural Community Assistance Project, Inc. to provide hands-on assistance in developing Comprehensive Business Plans for existing waterworks. The contract expired on June 30, 2005.

Appendix A

Appendix B

Appendix C

Appendix D

Appendix E

Back Page
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